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February 18, 2009

AGENDA ITEM 6a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: 2008 Third Quarter Self-Funded Health Plans
Financial Report

II. PROGRAM: Health Benefits

III. RECOMMENDATION: Information Only

IV. BACKGROUND:

This report is to provide the CalPERS Board of Administration (Board) with an update on the financial status for the six CalPERS self-funded Preferred Provider Organization (PPO) health plans for the calendar quarter ending September 30, 2008. This is the third quarter for the new plans, PERS Select Basic and Supplemental.

The overall financial position of the self-funded health plans remains stable. The medical and pharmacy claims 12-month cost trends have increased slightly for the first nine months of 2008 compared to the 2007 year. The ongoing positive financial results for the program assets provide assurance that the rates approved by the Board for the 2008 plan year were sufficient to fund benefits and to maintain adequate reserves.

V. ANALYSIS:

At the end of the third quarter of 2008, the overall combined loss ratio for the self-funded health plans was 97 percent (100 percent is break-even). This is one percent higher than the loss ratio at the end of the first half of 2008. There was a \$5 million gain during the third quarter, which resulted in an overall underwriting gain of \$39 million for all six self-funded health plans. The first nine months produced better than expected results based upon the continuing lower-than-expected overall trend in the medical and pharmacy claims cost.

Assets above the actuarial reserve requirements at the end of the third quarter were \$411 million, which is an increase of \$78 million for the first nine months of 2008. This increase was due to several factors, including better-than-expected

claims cost trends and continuing strong rebates relating to the pharmacy contract.

The following attachments provide detailed financial and trend information:

Attachment 1

This attachment displays summary results for the first nine months of 2007 and 2008 as well as the prior two years. The PERSCare Supplement to Medicare, PERS Choice Basic, and PERS Select Basic plans are showing underwriting gains while the PERSCare Basic, PERS Choice Supplement to Medicare, and PERS Select Supplement to Medicare plans are showing a small loss.

Attachment 1A

This is a graphical representation of the trend data shown in Attachment 1. In the basic plans, the PERS Care medical and pharmacy trends are increasing, while the PERS Choice trends are remaining flat. For the supplemental plans, the pharmacy trends are increasing and the medical trends are flat. Since this is a rolling 12-month trend, the Select plans will not appear in the graphs until the 1st quarter of 2009.

Attachment 2

This attachment presents the per-member-per-month (PMPM) medical and pharmacy claims costs for five quarters beginning with the third quarter of 2007.

The year-to-year (comparing 3rd quarter 2007 to 3rd quarter 2008) medical PMPM costs show expected increases for the four self-funded health plans with PERS Care Supplement to Medicare plan at a low of 2.0 percent and PERSChoice Basic plan at a high of 11.1 percent.

The year-to-year (comparing 3rd quarter 2007 to 3rd quarter 2008) pharmacy claims show expected increases for the four self-funded health plans with PERS Choice Supplement to Medicare plan at a low of 1.8 percent and PERSCare Supplement to Medicare plan at a high of 3.2 percent. Trends reflect claims cost only and do not include rebates.

Attachment 2A

This is a graphical representation of the data in Attachment 2. The medical costs of the basic plans are showing increases, while the remainder of the costs are remaining flat.

Attachment 3

This attachment presents asset values, reserves and asset changes for the self-funded health plans.

As of September 30, 2008, total program assets (line 21) exceeded the actuarial reserve (line 23) by over \$411 million. The excess of assets over reserves increased by \$78 million for the first nine months, indicating that surplus reserves are being generated due to the lower-than-expected claims cost trends and continuing strong pharmacy rebates. Overall, the four established self-funded health plans' asset levels continue to be positive. The two new plans are currently showing a small deficit.

Attachment 4

This attachment highlights the relative strength of the assets compared to the actuarial reserve. The overall levels of the assets in the self-funded health plans remain positive and indicate that assets and reserves are adequate to cover program liabilities.

Attachment 5

This attachment shows the overall enrollment trends for the four self-funded health plans. Enrollment in PERSCare Basic plan continues to decline as enrollment has shifted to PERS Choice and PERS Select.

VI. STRATEGIC PLAN:

This directly relates to Strategic Goal #10: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

There is no cost associated with this item.

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